Use any dip to buy equities

We continue to favour equities over other asset classes and recommend taking advantage of any temporary dip to build up holdings at attractive prices. At this juncture, Japan which has underperformed other developed markets this year is our preferred region. Valuations of U.S. equities are no longer cheap, but they are not demanding either. However, Wall Street should continue to benefit from good economic numbers. We are neutral on high-yield bonds but prefer them to investment-grade ones, and advise investors to hold bonds with shorter durations.

RECOMMENDATIONS:

- **Equity funds:** The ***BlackRock Global Equity Income Fund*** allows investors to share in the synchronised recovery in the developed markets; it offers yield as well as potential capital growth (monthly payouts total around 3 per cent per annum) by investing in high-quality companies that combine strong growth potential with a steady dividend stream. More aggressive investors may opt for the ***Aberdeen Japan Equity Fund*** or the ***Parvest Equity Europe Growth***.

- **Equity-Linked Convertible Investments:** We like ***Thai Beverage*** and ***Genting Singapore***. Genting is potentially an undervalued stock with strong reported earnings and expansionary plans which are on track. Thai Beverage is likely to be tomorrow's regional F&B giant as plans are being worked out to exploit synergies with F&N. Its stronghold in Thailand is an income anchor, continuing to deliver revenue and earnings growth even in the face of Thailand's political troubles. For tech sector exposure, we recommend clients to consider ***Baidu Inc***. The company reported strong Q1 numbers led by solid growth in average spend per customer, highlighting both continued demand from companies in reaching out to customers and Baidu's value proposition to these companies. Baidu is well positioned to be a key beneficiary of mobile Internet in China.

- **Bonds:** Shorter-dated high-yield bonds can protect investors from interest rate risk in the event of future hikes. ***Overseas Education Ltd***, whose 5.2 per cent bond matures in 2019, runs a private foreign school system in Singapore offering the K-12 IB curriculum, with an operating history of more than 20 years. It has historically been conservative in its financial policies, having stayed debt-free since its inception in 1991. Its business model has been rather resilient over the years. The student base is also well-spread across 70 nationalities, reducing its dependence on students from any particular country.

- **Bond Funds:** A rising interest rate environment could benefit high-yield bonds, thanks to their greater resilience over investment-grade debt. The ***Allianz U.S. High Yield*** provides exposure to high-yield credits well placed to benefit from the recovering U.S. economy, while making monthly distributions totalling S$0.80 per annum. Using an active asset allocation strategy, the ***Schroder Global Multi-Asset Income*** seeks to deliver its payout rate of 5 per cent per annum by investing in multiple asset classes worldwide.

- **Currencies:** Improving U.S. growth could lift U.S. yields and the greenback and cause greater market volatility. We remain positive on the outlook for the U.S. dollar, especially in light of the recovering U.S. economy. For the other major currencies, the European Central Bank's dovish stance should gradually drive the euro weaker even as the Japanese yen remains range-bound against the U.S. dollar in the 101 to 105 yen range in the near term.